



REGULAR MEETING
PUBLIC EMPLOYEES' RETIREMENT BOARD

February 8, 2007

The open meeting was called to order by President Carey, Thursday, February 8, 2007. Board members and staff present. Elizabeth Nedrow and John Paull attending via conference phone.

Carole Carey, President
John Paull, Vice President
Robert Griffith, Member
Jay Klawon, Member
Troy McGee, Member
Elizabeth Nedrow, Member
Terry Smith, Member
Melanie Symons, Legal Counsel
Scott Miller, Legal Assistant
Roxanne Minnehan, Executive Director
Diana Stitt, Temporary Secretary

OPEN MEETING

Chad Nicholson, Rick Ryan, Doug Neil, Matt Norby, Scott Moore, Keith Simendinger, and Jack Trethewey, members of the State Firemen's Association; Jeff Brandt, Montana State Council of Professional Fire Fighter's; Nancy Quirino, Great-West; Kim Flatow, Member Services Bureau Chief; Barb Quinn, Fiscal Services Bureau Chief; Kathy Samson, Defined Contributions Bureau Chief; Carolyn Miller, Administrative Officer; Diann Levandowski, Rob Virts, and Karen Davis MPERA, joined the meeting.

MINUTES OF OPEN MEETING

The minutes of the open meeting of January 11, 2007 were presented. Mr. Griffith moved to approve the minutes. John Paull noted a correction on page 4 under "Verbal Update, Board of Investments" to delete Ron Nelson and add Vaughn Nelson. This was noted. Terry Smith seconded the motion. Upon being submitted to a vote, the motion carried with all members voting aye. The minutes of the January 17, 2007 meeting were presented. Terry Smith moved to approve the minutes. John Paull seconded the motion. Upon being submitted to vote, was duly carried with the seven attending members voting aye.

Public Comment – Betty Lou Kasten thanked the Board for the plaque and for the sentiments. She also wanted to let the Board know that she was always available to help in any way she could.

EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Executive Director

EIAC Recommendations – Investment Policy Statements – Kathy Samson

The EIAC has completed their review of the 401(a) and 457 Investment Policy Statements. Kathy Samson presented to the Board the recommended changes. Most of these changes were structural changes; however, the biggest changes were on page two. Separate paragraphs were devised for “Requirements”, “Quantitative Measures” and “Qualitative Measures” to eliminate confusion. In addition, under the paragraph “Quantitative Measures”, the sentence “Funds must...” was changed to “Funds are expected to...”. This is due to the strength of the word “must”.

In paragraph three under “Evaluation of Investment Alternatives”, sub-section “a - Review Status” was added. The intent of this paragraph was to allow for an investment option to be “watched” for any type of shift in performance. Under Part b, “Probation status”, additional language was added to clarify the paragraph for easier understanding of what “probation status” means and how long the probation status would remain in effect.

Part “c” was also added. This was to ensure that an investment option can continue to be in a “review” or “probation” status.

There was a discussion concerning adding a “rolling period” instead of a “start/stop” for measuring performance or the Sharpe ratio and to increase the measuring period from three year to five years.

Mr. Terry Smith moved to approve the 2007 Investment Policy Statements, for the 401(a) and the 457 plan as presented by Kathy Samson, with the amended change from a three year to a five year measuring period. Motion was seconded by Mr. Troy McGee. After some discussion, Mr. Terry Smith amended the motion to include “rolling five years measuring periods” in section two. Mr. Troy McGee seconded the motion. No further discussion. The motion passed with all seven members voting aye.

NOTE: Mr. Jay Klawon requested that the Personnel Committee meeting scheduled for that afternoon be rescheduled for next week. All agreed and a meeting was set up for Tuesday, 13 February 2007 at 11:00. This meeting will be conducted through a conference call.

Informal Consideration – Rocker Volunteer Fire Department – Diann Levandowski

The Rocker Volunteer Fire Department is requesting the Board accept Annual Certificates from 1998 – 2004 for Mr. Doug Clark. Mr. John Paull made a motion to accept the late filed certificates and the associated training documentation. Discussion arose as to whether the Board needed the original documentation to support the member’s training or if the package that was submitted was adequate. Ms. Carole Carey stated that there was a motion on the floor and wanted to know if Mr. John Paull wanted to table the motion in order for the Board to obtain the original documentation. Mr. John Paull stated he wanted to keep his motion. Discussion continued with the agreement that the package contained all the necessary documentation. The motion was seconded by Mr. Terry Smith. The motion passed with all seven members voting aye.

Legislative Committee Report – Robert Griffith/Staff

Mr. Robert Griffith, Chairman of the Legislative Committee, reported that each Board member would be receiving a copy of the minutes from each Legislative Committee meeting and any additional information the committee was working on. This was to ensure the Board would be fully informed of their progress. Members of the committee included himself, Mr. Troy McGee, Mr. John Paull. Of interest, Mr. Griffith stated that there was a bill that was introduced concerning the National ID.

Ms. Roxanne Minnehan presented the Board with a copy of the House and Senate bill tracking reports.

Ms. Roxanne Minnehan presented the following update on the Board Bills:

HB 125, *Repay loan for startup costs of the defined contribution retirement plan* was heard in committee, Monday, February 5, 2007. No executive action has been taken to date.

HB 129, *Revise retirement laws to conform to federal law and decisions* has passed the House and has been moved to the Senate. No hearing date has been scheduled.

HB 159, *Increase employer contribution rates for PERB systems* was heard in committee; however, no executive action has been taken to date.

The Governor's bill HB 131; Teachers funding bill HB 63; and a couple of other bills, including DC Loan bill where originally scheduled for House Appropriations. However, the House State Administration Chairman requested that these bills get moved to his committee because he wanted the committee to hear all related retirement funding legislation. That morning, Ms. Minnehan and President Carey attended the session on HB 131. Ms. Minnehan presented the following review of testimony offered:

Representative Sesso is the sponsor of the bill.

Representative Lewis and Mr. David Ewer spoke in favor of the bill. Other proponents included:

Mr. Leo Barry, from the AMPRE, supported the bill; however, he wanted to add a trigger that if the investment return is below the actuarial rate of return of 8% for two consecutive years, then we decrease the GABA to 1.5%.

Mr. Fowler, from AARP strongly advocated the solvency of the retirement system but he didn't like the decrease in the GABA, he would like it to remain at 3%.

Mr. Tom Schneider, MPEA, testified in favor of the bill and spoke on behalf of PERS only. He said that the retirement systems must be funded-legislation was put in before, passing the House but not the Senate. He wants all new employees to continue to have a DB retirement system. They do support a 3% GABA per the Board's bill.

A student lobbyist spoke on behalf the bill. It was believed he was trying to tie it to other bills in the university to attract and pay professors.

Ms. Minnenhan and President Carey testified opposing the bill.

Other opponents included:

Ms. Wood, from MACCO, stated that this bill was a burden to the tax payers, by increasing the employee contribution and that she thought it would be close to an unfunded mandate and requested they provide funding. She also agreed with the testimony from Ms. Minnehan and President Carey about the disparity, recruitment, and the GABA.

Mr. Jim Kembel, representing the Police Association, requested that MPORS be amended out. The bill does not help them with recruitment and creates disparity.

Mr. Mark Taylor, representing the Highway Patrol, also requested that the HPORS be amended out for the same reasons.

Mr. Doug Neil and Mr. Jack Trethewey, from the State Firemen's Association, also requested the FURS be amended out for the same reasons.

Upon completion of all testimony, there was some questions and debate about the bill. The only question asked of Ms. Minnehan regarded the vesting periods for all retirement systems. Rep. Jacobson asked Mr. Barry about the "trigger" but it was believed that Rep. Jacobson was thinking that the trigger would bump it up when in fact it would bump it down. Rep. Jacobson also asked Mr. Ewer if there would be a possibility to amend the others out. Mr. Ewer responded that it was a policy issue of the Legislature and that he thinks the bill is fair, appropriate, and creates parity. He also spoke about the trigger not really working. He stated that we must meet the constitutional requirements and that could affect the Montana's rating services.

In closing, Representative Sesso stated that the employer contributions would increase more if they did not reduce the GABA and that we should share the problem with the new hires. He also talked about the inequity with the other systems, and that the 3% has only been in effect since 2001, and this is the fairest way to achieve actuary soundness. In addition, if we can afford it later we could increase it later.

Ms. Minnehan then presented the Board with PERS Cost of Living Adjustments (COLA) history that she provided with her testimony. She pointed out that there has been a COLA or some sort of adjustment every session because of inadequate retirement benefits.

Mr. Robert Griffith asked if Ms. Betty Lou Kasten testified on the Board's behalf on HB 125, *Repay loan for startup costs of the defined contribution retirement plan*. Ms. Minnehan reported that Ms. Kasten's testimony really drove the point to Representative Wilmer, that when the bill originally passed, the State did not have a lot of money so the funding was replaced with the loan,

and now we do have money so perhaps we should fund it. The Board believed Ms. Kasten testimony made quite an impression and wanted to thank her for her testimony.

Ms. Melanie Symons informed the Board that she had attended a hearing on SB340, which would give the Governor the authority or the power to veto our administration rules. This was not a Governors' office bill and the Governors' office opposes this bill.

Tax Counsel Consultant Contract – Scott Miller

Mr. Scott Miller reported that we are in the process of trying to get an extension of the current contract with Ice Miller for another six months to get them back on fiscal year basis. Once this gets approved the contract will be back on an annual basis, starting in July. Mr. Troy McGee moved that the contract should be extended for six months to get back on a fiscal calendar. Mr. Robert Griffith seconded the motion. Upon being submitted to vote, was duly carried with the seven attending members voting aye.

DC Plan Investment Consulting Draft RFP – Kathy Samson

Ms. Kathy Samson reported that we currently have a contract with Arnerich & Massena to provide consulting services and fund reviews for investments in the defined contribution and deferred compensation plans. The contract expires March 2007. We have been working with them for approximately six years and renewed the contract twice. One of the problems with the RFP is that the timing is very awkward as they are responsible for doing our end of year evaluation, sending the results to EIAC, and then EIAC brings the recommendations to the Board. When their contract expires at the end of this month, they may not have year end data. So we are trying, within the RFP, to time the contract with the work that is needed from the consultant. One of the major attachments needed in the RFP is the Investment Policy Statement, which was approved by the Board.

Ms Samson then presented a timeline with specific questions to the Board as to what level of involvement the Board would like with this process. At present, we have two advisory counsel members working on this with Ms. Samson – Mr. Bob Bugni and Mr. Ed Dawes. A draft was presented as to the scope of services we would like to have. The committee will get the annual report from Arnerich & Massena, which will be presented to the advisory council on the 15th of March. Therefore, the recommendations will not be presented to the Board in the April meeting. However, we would like the Board's current options known in order to get the most accurate information into the RFP.

The Board was asked whether they wanted presentations and to be part of the RFP scoring. The consensus of the Board was to allow the committee to make the determination. Mr. Jay Klawon and Mr. John Paull volunteered to serve on the evaluation committee to review and score the responses.

Ms. Samson also provided a copy of what EIAC has reviewed relative to the services we would request. In addition, a basic investment training course may be added.

Actuary Consultant RFP – Scott Miller

Mr. Scott Miller reported that we have had a contract with Milliman Actuaries & Consultants for the past eight years. Typically state contracts are limited to seven years and it is time to send out an RFP for actuary services. Mr. Miller asked for volunteers for the committee: Mr. Troy McGee and Mr. John Paull volunteered to serve on the committee. Mr. Robert Griffith also volunteered if necessary. The Board agreed to have committee approval of the RFP and would like presentations to the Board from the top actuaries. Mr. Troy McGee raised the issue if the contract could be extended for one year. Mr. Scott Miller will investigate and report back to the Board. If this is true, the Board would like to extend this contract until January 2008.

Budget Status Report – 2nd Quarter - Barbara Quinn

Ms. Barbara Quinn presented the 2nd Quarter Budget Status Report for 2007. The information presented was as of December 31, 2006, so 50% of the fiscal year has elapsed. Most of the expenditures should be around 50%. All programs are looking relatively well, with a few areas that are being monitored. Areas of interest include:

*Other Services/Computer Processing – After the budget was approved, notification was sent that the computer-processing rate would increase for FY 2007.

*Other Services/Consulting & Processional Services – this is being monitored closely as the overall Consulting & Professional services are 26.88% expended. If we go out to when all the December bills were paid, it jumps to 49%. DB-Contract with Goetz was budgeted at \$25K. It was stated at the last budget review that we expected the budgeted amount will not be enough to cover Goetz's actual expenses, as we have already paid Goetz \$48.3K as of December 31st. Another area that is being monitored closely is the actuary Milliman. With legislation impacting the retirement systems, the actuary needs to assess the actuarial impact. Every study impacts our budget.

* Other Expenses/Recruiting

Overall, Other expenses are at 33.38% expended through 40% when all December bills are paid. Overall recruiting is 96% expended at year-end. We will definitely see this line over-expended at year-end, however when all the lines are rolled together the budget remains in check.

It is expected that we will be under 100% across all programs at FYE.

MPERA Staffing Update – Roxanne Minnehan

Ms. Roxanne Minnehan reported in last meeting that our receptionist, Ms. Telina Duncan had moved to the new position as the Refund Clerk. Ms. Minnehan also introduced Ms. Karen Davis as the newest staff member as the Executive Assistant to the Executive Director. She has a Bachelor of Science degree in Business Management and an Associated of Arts degree in General Studies. She worked for the Department of Defense for eight years, and was in the U.S. Navy for 22 years as a Cryptologic technician.

The receptionist position has been posted in-house and was closed on February 7th. There were no applicants in-house. The position will be posted statewide.

The job profile for the Auditor position has been created and sent to HR for classification.

Mr. Dan Haag, IT Programmer, has submitted his resignation. His last day will be February 16, 2007. Recruitment has started on this position.

Union Negotiations – Roxanne Minnehan

The union has contacted us regarding a couple of issues with the contract. We must meet with them at least 90 days before the current contract expires. The Personnel Committee is working on this. The Board was presented the committee's agenda and MPERA's addendum to the contract. The negotiation team will include:

Union Representative:	Staci Bird
Staff Members:	Shelly Pardis, Sheri Mitchell, & Kathy Herbel
Board Members (Personnel Committee):	Chair, Elizabeth Nedrow, Jay Klawon & John Paull
Management Team:	Melanie Symons, Scott Miller & Roxanne Minnehan
HR Representative:	Kathleen Field
Labor Relations:	Greg Martin

The pay plan bill (HB13) proposes a 3% increase for the next two years of the biennium plus 0.6% for management to determine how to distribute it. It also proposes an increase in the longevity increment for each employee who has completed 10 years of uninterrupted service with the state. The bill proposes moving all state employees to the pay band system (Plan 20). The union wants the 3.6% applied across the board to each employee.

Board of Investments Update – John Paull

John Paull gave the following report on the different market values as of December 31, 2006.

<u>System</u>	<u>Market Value</u>
MPERS	3.8 billion
Firefighters' Unified	183 million
Game Wardens	66.7 million
Highway Patrol Officers	96.6 million
Judges	57.8 million
Municipal Police Officers	192 million
Sheriffs	183 million
Volunteer Firefighters'	24.9 million

Of note, Teacher's market value is 2.9 billion. Mr. John Paull presented the new figure for the Montana Board of Investments fund total as of 31 December 2006 – \$12,472,805,000.00

Litigation Update – Melanie Symons/Scott Miller

Ms. Melanie Symons reported a decision was issued by Judge McCarter on the Bean, et al. v Montana and MPERA case in regards to which firefighters may be added to FURS. The Judge awarded the plaintiff attorney fees but not at the amount they originally requested. Ms. Symons has requested a copy of the order. Mr. John Ellingson, representing the state, is going to appeal to the Supreme Court. Ms. Symons also reported that she has not heard anything new regarding the Teichrow lawsuit.

Mr. Scott Miller reported on the Baumgardner case. We have received Baumgardner's post trial brief and post trial findings of fact, and conclusions of law and order were proposed to the court on January 29th. Only new information, offered by Baumgardner, concerned the two claims the Judge ruled against preceding on.

The following portion of the meeting relates to matters of individual privacy. President Carey determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.

SYNOPSIS OF THE CLOSED MEETING

The minutes of the closed meeting of January 11th were presented. Mr. Jay Klawon moved that the minutes of the previous closed meeting be approved. Mr. Robert Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Retirement Report

- Disability Claims:
 - BM is 59 years old. She works for the Great Fall Public Schools as a custodian and has been in PERS for 16 years and 8 months. She has had back fusion at L5-S1. Prognosis is guarded. Our physician indicated that she can not do custodian work, as did her physician. The Board approved the disability request with no annual review.
 - DW is 56 years old. He works for the City of Deer Lodge as a Cemetery Sexton and has been in PERS for 16 years and 11 months. He has macular degeneration in both eyes and a detached retina in the right eye. He is unable to do his job. The Board approved the disability request with no annual review.

Mr. Robert Griffith moved to approve the disability claims as noted and Mr. Troy McGee seconded. The motion passed 7-0.

- Finalized Service Retirements Disability Benefit Payments.

Ms. Kim Flatow presented the Board with the report. Mr. Robert Griffith made the motion to approve the finalized service retirements, disability benefit payments, monthly survivorship death benefits, etc. Mr. Jay Klawon seconded the motion. The motion passed 7-0.

Legal Services –

Mr. Scott Miller reported that last month the Board had considered some information from a RW who tried to retire effective November, with payment starting in December. However, before he retired and received his first retirement check, he returned to work. Under the statute, that nullified his election to retire. He requested the Board reinstate his retirement and the Board denied his request. RW has asked for a contested case hearing.

Ms. Melanie Symons reported that the LH case is being worked on. The case involving RG has been dismissed. Ms. Symons also reported that concerning JT, she had received the response brief earlier this week and would have the reply brief completed by tomorrow. In regards to SCW, he has asked for a contested case over the phone or in writing.

ADJOURNMENT

There being no more business before the Board, Jay Klawon moved to adjourn the meeting. Mr. Robert Griffith seconded the motion. The motion passed with all seven votes, and Carole Carey adjourned the meeting at approximately 1:30 pm. The next meeting is tentatively scheduled for March 8, 2007, at 8:30 a.m. in Helena.

EXECUTIVE SESSION

The meeting went into executive session to discuss the Executive Director's performance.

Carole Carey, President

ATTEST:

Roxanne Minnehan, Executive Director